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C O N F I D E N T I A L SECTION 01 OF 02 ASMARA 000490

SIPDIS

DEPARTMENT FOR AF/E,
LONDON AND PARIS FOR AFRICA WATCHERS

E.O. 12958: DECL: 10/06/2018

TAGS: EMIN PGOV ER

SUBJECT: BISHA MINING'S REMAINING CHALLENGES

Classified By: CDA Melinda C. Tabler-Stone for Reason 1.4 (d)

¶11. (C) Summary: Bisha Mining's Stan Rogers said extraction of gold is on schedule to begin in 2010. The present condition of roads and bridges between the mining site and the port cannot handle the weight of the trucks, and 25 megawatts of electricity are needed to operate the mine. Financing is challenging in the current global credit markets, but is coming together. High-level Eritrean government officials are committed to helping make the mine operational by 2010. End Summary.

ROADS AND BRIDGES - NOT UP TO THE JOB

¶12. (SBU) Eritrea's road network presents serious transportation challenges for mineral extractors. While studying the road between Asmara and Massawa for an upcoming rehabilitation project, engineers from the European Commission (EC) determined the bridges are in pitiful condition. The metal supports on many of the bridges show significant stress and cannot handle dozens of ore-laden trucks per day. Temporary roads are planned to bypass the bridges, but the loaded trucks' weight makes them unable to use these roads while the ground is wet, especially during the long rains from July to September. The EC will coordinate with Bisha so that their road rehabilitation project does not interfere with either getting heavy equipment to the mining site or getting minerals out.

¶13. (SBU) Inadequate roads are not a problem until 2012, when QRQcks containing copper and zinc begin rolling down the escarpment. Only gold will be mined from 2010 to 2012, but it will be flown out from an airstrip near the mine rather than trucked to the coast for shipment by sea.

NOT ENOUGH POWER

¶14. (SBU) Rogers said he is still working out supplying Bisha's power needs for full mining operations, which he estimates as 20 to 25 megawatts (MW). Nevsun offered to install a heavy fuel oil generator near the mine and connect it to Eritrea's power grid, but only if its output was prioritized for mining operations. Eritrea's present generating capacity cannot adequately support mining operations. Unfortunately, the GSE nixed the generator proposal, leaving Rogers to find an alternative solution.

¶ 15. (SBU) According to Rogers, the Eritrean government would license Nevsun to develop the 100 MW geothermal field south of Massawa & tomorrow⁸ if he asked for it. Unlike ore mining, all extra revenues generated from electrical production would be in the non-convertible local currency, making any Nevsun investment in the endeavor mostly altruistic. If the Eritreans make peace with their neighbors and contribute to developing a regional electrical grid, Nevsun may reconsider the project, but only after gold extraction is fully underway,

FINANCING - SLOWLY COMING TOGETHER

¶ 16. (SBU) Rogers said project's financing is coming together, but gave no indication of the investors' identities. Other Embassy contacts said the Qataris and Chinese are at the top of the list. A Chinese firm recently offered to buy an equity stake in Bisha, but Rogers informed them the only available avenues of investment were either ore-purchasing contracts or loans. Rogers said despite the current state of global credit markets, the project was attractive enough that he had had to turn some investors away. However, other investors had decided against the investment due to "political cick" in Eritrea, which Rogers described as a euphemism for fear of global financial conditions. He downplayed the threat of GSE expropriation.

GSE DECISION-MAKING ON MINING

¶ 17. (SBU) Rogers claimed the Bisha mining project has strong backing throughout the government, despite President Isaias

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recently telling a group of potential investors that he "hates all mining and oil companies." Rogers believes Eritrea's desperate need for hard currency trumps the president's personal feelings, and either by choice or design, the president is out of the decision-making loop on mining. Rogers said relevant government ministers and high ruling-party officials work out a consensus on all mining related matters before presenting them to Nevsun.

¶ 18. (C) A number Eritrean government ministers and other officials recently expressed concern to Rogers about Eritrea's deteriorating economic condition. They all know something is wrong, but Rogers said none of them know what to do about it.

¶ 19. (C) Comment: Rogers' belief that President Isaias is not directly involved in mining affairs contrasts with his usual hands-on approach. The president is believed to micro-manage and make decisions better left to functionaries and technical personnel. If Rogers' account of the president's involvement is true, it indicates either unusual personal restraint or a deliberate policy within the government to reduce the president's influence over a potentially regime-saving stream of hard currency. Either way, it helps explain why mining is one of Eritrea's few functional industries. End Comment.

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